ROSE ON COTTON – ICE COTTON FINISHES NEAR UNCHANGED ON WEEK ON BULLISH EXPORT AND BEARISH WASDE REPORTS; NCC PROJECTS LOWER PLANTED AREA VS 2019

16-February-2020

LOUIS W. ROSE IV AND BARRY B. BEAN

ICE cotton contracts finished mixed for the week ending Valentine's Day with Mar giving up 34 points and May and Dec picking up 27 and 20 points, respectively. The Mar – May spread was near unchanged (at less than full carry) at (88). Our proprietary model (timely prediction available in our complete weekly report) predicted a settlement for Mar that was to be near unchanged to higher Vs the previous Friday's finish. However, we did not recommend trading this bias due to the release of the Feb WASDE report.

It is difficult to say what affected the cotton market most last week; index fund rolling, strength in US currency, the release of a bearish WASDE report, a bullish export report, and/or an explosion in coronavirus (COVID-19). Market movement did not seem to be well correlated with figures found in either the WASDE or export reports.

The National Cotton Council (NCC) released its annual Planting Intentions survey results on Saturday, Feb 15. NCC projects

2020 US planted area of nearly 13M acres (off 5.5% Vs 2019) Vs the 12.7M acre figure produced last month by Cotton Grower magazine. NCC projects 2020/21 domestic carryout at 5.86M bales, which is bearish. Conversely, NCC projects 2020/21 aggregate world production lower Vs 2019/20 at 118.9M bales and consumption higher at 120.7M bales.

The USDA will provide its initial S&D projections for the 2020 crop this week on Thursday, Feb 20 and Friday, Feb 21 at its annual Ag Outlook Forum. We expect figures unveiled at this event to resemble those put forth by NCC.

On the production side, most of The Belt is expected to see more rain and showers this week. Aside from the obvious hindrance to pre-planting fieldwork that is being realized, the southern Mississippi River Delta is now seeing a record level of flooding. Although it is early, the 2020 planting season seems to be taking much the same shape as did 2019.

US export data continues to dazzle. Net export sales against 2019/20 were modestly higher for the week ending Feb 6 Vs the previous sales period while shipments were off a bit at around 362K and 410K running bales (RBs), respectively. The US is 85% committed and 38% shipped Vs the USDA's export projection. Both sales and shipments were again ahead of the average weekly pace required to meet the USDA's 16.5M bale export target. Sales against 2020/21 were around 57K RBs. Sales cancellations were large at approximately 152K RBs and were mostly attributable to China.

We are now projecting US exports for 2019/20 at 17.25M bales.

Internationally, the coronavirus seems likely to continue to cause issues over the near- to medium-term, at least, with some experts now saying that the world will be dealing with COVID-19 for months, if not years. Elsewhere, Conab has increased its projection of this season's Brazilian crop to the equivalent of near 13M 480lb bales Vs the USDA's projection of 12.7M bales. Although we have no doubt that production in Brazil this season should prove strong, we are pondering the notion that late sowing of the safrinha crop may ultimately result in current production projections proving overblown.

For the week ending Feb 11, the trade increased its aggregate futures only net short position against all active contracts to around 9.7M bales while large speculators increased their aggregate net long position to more than 3.5M bales.

For an in-depth analysis of CFCT data see our weekly CFTC analysis and commentary.

For this week, the standard weekly technical analysis for and money flow into the Mar contract remains supportive to bullish. Overall, we think ICE futures are likely to find strong support below the current market. S&D projections put forth by USDA at this week's annual Ag Outlook Forum also hold market-moving potential.

Our advice to producers remains consistent with last week's, with an added emphasis on volatility. The progress of the coronavirus and the international response provide sensational headlines and speculators may be forgiven if they have an emotional response to the prospect of a global pandemic. While we don't take these concerns likely, the apparent support just below current market levels should give producers the confidence to stick to their price targets for another week or two. With that said, put options are always an excellent hedge against volatility.

Have a great week!

Report Courtesy: Rose Commodity Group

With well over 60 years combined experience in the commodity trade, the partners of the Rose Commodity Group offer a wealth of knowledge and perspective to their clients. With *expertise and direct experience in agronomy, crop production, futures and options, spot trading, hedging, shipping, and insurance, the Rose Commodity Group approaches marketing and risk management from a comprehensive perspective. Rose Commodity Group is not directly affiliated with any other commodity firm; we are not commission futures brokers. Our strategies and advice are based entirely on our client's specific needs and goals.*

To learn more about Rose Commodity Group please visit: https://www.rosecommoditygroup.com/about/